

A nonprofit organization of commercial banks formed to provide and promote a credit card plan for member banks does not qualify for exemption under section 501(c)(6) of the Code.

Advice has been requested whether the nonprofit organization described below qualifies for exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954.

The organization is an association of commercial banks formed to create, operate, and promote a system of compatible charge cards for its member banks. The association's activities include the formulation of regulations governing the operation of the charge system; the design of a registered symbol for imprinting all charge cards and for advertising the charge service; the publication of a revoked card list to identify cards not to be honored; and the maintenance of an indemnification plan for losses incurred by members because of misuse of cards.

Under the operating regulations, member banks issue charge cards to their customers and to the customers of nonmember banks participating in the system. Each bank contracts with merchants to accept the charge card as a basis for charging purchases made at their stores. A merchant under contract with one bank will accept charge cards issued by any member bank of the association. The charges are deposited in the merchant's bank and then are interchanged through the local bank clearinghouse.

The interchangeable credit card system devised by the organization provides wider acceptance for credit cards issued by member banks, thereby enabling the credit card business of member banks to compete more effectively with credit card plans issued by other banks. A merchant signing with a member bank can draw customers from the credit card holders of all the member banks rather than just those holding credit cards issued by the bank signing that merchant.

The association receives from each member bank a membership admission fee to defray initial development expenses and an assessment determined by the amount of charge card transactions handled by each bank.

Section 501(c)(6) of the Code provides for the exemption from Federal income tax of nonprofit business leagues whose earnings do not inure to any individual.

Section 1.501(c)(6)-1 of the Income Tax Regulations defines a business league as an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of

business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons.

By creating the compatible charge card system and the rules and regulations governing the operation of the system, the organization is performing particular services for its members. The individual banks benefit from the resulting convenience and economy in the operation of their credit card business and from the interchange of credit charges between banks.

Accordingly, it is held that the organization does not qualify for exemption from Federal income tax under section 501(c)(6) of the Code.